Self-funding Glossary

Below is a list of terms and definitions that are commonly used with self-funded insurance.

12/12 contract – This contract type covers only claims incurred and paid within the policy year. This type of contract is typically only used for the initial year of coverage with a new carrier or when moving from fully insured to self-funding.

15/12 contract – This contract type covers claims paid within the policy year that are incurred during the policy year and the three months before the policy year begins. This type of contract is often referred to as a "run-in policy."

18/12 contract – This contract type covers claims paid within the policy year that are incurred during the policy year and the six months before the policy year begins. This type of contract is often referred to as a "run-in policy."

Administrative fee – A per-employee-per-month fee that a self-funded employer pays to the benefits administrator (insurance company or TPA) to process and pay claims, maintain the provider network, and perform other functions such as case and disease management, account management, utilization review, etc.

Aggregate attachment point – This number represents the maximum claim liability for the entire group. It is the plan's expected claims plus a margin factor (typically 25%). Once this cap is reached, the stop loss policy protects the group for all eligible claims (typically up to $1 million).

Aggregate margin – The amount above expected claims at which the aggregate attachment point is set. (typically, 120 or 125%).

Aggregate stop-loss coverage (or reinsurance) – The component of the stop loss that provides a protective ceiling on the dollar amount of eligible expenses that an employer would pay, in total, during a contract period. This is protection against abnormal frequency in claims rather than severity of a single claim. This is also known as maximum liability.

Aggregating specific corridor or Aggregating specific deductible (ASD) – When the employer assumes additional liability in exchange for a lower premium. The ASD is a set dollar amount that is used to cover a single claimant or multiple claimants, who exceed the specific deductible.

ASO – Administrative services only (ASO) refers to an agreement that companies use when they fund their employee benefit plan but hire an outside vendor to manage the administration of it. This term is frequently used interchangeably with self-funded.

Claims history – the record of a person or groups use of insurance. This is especially important to self-funded groups as they have more risk and past claims help project future expense.

ERISA – Employee Retirement Income Security Act. ERISA is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans.

Fixed cost – A cost that does not change with an increase or decrease in claims. For example:
an employer's administrative fee which does not change for an entire policy year and will only fluctuate based on enrollment. These costs are typically calculated on a per-employee-per-month basis.

Incurred claim – Incurred claims are those where the claim has happened but has not been paid.

Level-funding – Level-funding is a type of self-funding in which the projected cost is equally distributed over the term of the contract period, remaining constant throughout, often with an annual settlement.

Leveraged trend – An annual increase in medical costs, the effect of which is compounded unless the self-insured plan concurrently increases its specific attachment point (or deductible). Self-insured plans can minimize the effect of leveraged trend by periodically adjusting their specific stop-loss deductible level to cover the same percentage of the total large medical claim.

Paid claim – Paid claims are those where incurred claims have been paid.

Paid contract – This contract type applies any benefits paid by the plan during the policy period to the stop-loss coverage. The contract ignores dates of service and is only concerned with dates of payment. This contract is usually only available on renewal (with the same carrier) and applies to claims incurred on or after the original effective date of coverage. Paid contracts do not protect against exposure after termination so plans often include "terminal liability" coverage to add protection.

Run-in coverage – A stop-loss contract with run-in coverage gives the employer protection from claims that were incurred prior to the effective date of the stop loss policy, but that have not yet been paid.

Run-out coverage – A stop-loss contract with run-out coverage protects the plan from claims that are incurred during the plan year but are not processed and paid by the end of the plan year. This is also known as a Terminal Liability Option (or TLO) and is selected at the beginning of the contract.

Self-funded – Self-funded health plans, otherwise known as self-insured health plans, are health plans where the financial risk (or at least part of the risk) associated with medical claims is held by the organization sponsoring the health coverage.

Specific deductible – Specific deductible is the dollar amount to be paid by the plan on each covered individual before the stop loss policy kicks in to reimburse expenses incurred during the contract period.

Specific stop-loss coverage (or reinsurance) – Specific stop-loss is the form of excess risk coverage that provides protection for the employer against a high claim on any one individual. This is protection against the high cost of a single claim rather than high frequency of claims in total. Specific stop-loss is also known as individual stop-loss.

Specific stop-loss laser – A laser or individual-specific deductible is the practice of assigning a higher specific deductible for an individual with a known condition that is likely to drastically exceed the specific deductible.
Stop loss – Insurance that protects self-funded employers against large claims. Stop-loss policies take effect after a certain threshold has been exceeded in claims. This is also known as reinsurance.

Terminal liability – Protection that a self-funded employer can purchase to protect them if they switch their stop-loss carrier or move to fully insured. It provides stop-loss coverage for claims incurred prior to the termination date, providing them protection from incurred but not reported (IBNR) claims. Depending on which terminal liability option is chosen by the employer group, claims must be incurred 12 months prior and paid within 3, 6 or 12 months after the termination date.

TPA – A third party administrator is a business organization that performs administrative services for a health plan such as billing, plan design, claims processing, record keeping, and regulatory compliance activities. TPAs are sometimes referred to as an Administrative Services Only (ASO) entity. This refers to both carriers and free standing TPA's.

Variable cost – A variable cost is an expense that fluctuates (e.g., claims costs).

Weekly funding invoice – An invoice that is sent to a self-funded employer advising them of the claims cost from the prior week, and the total amount that needs to be transferred to their claims funding bank account (The TPA will then pull those funds from the employer's bank account and use the funds to pay the providers.)

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